

Consolidated Financial Statements

**Fortune Minerals Limited**

December 31, 2009 and 2008

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The consolidated financial statements and the Management Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise as they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis given currently available information in order to ensure that the financial statements are presented fairly, in all material respects.

The Company maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and its members are outside directors. The Committee meets with management as well as the external auditors to discuss auditing matters and financial reporting issues and to review the consolidated financial statements, the Management Discussion and Analysis and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of shareholders. The external auditors have free access to the Audit Committee.

*[Signed]*  
Robin Goad  
President and  
Chief Executive Officer

*[Signed]*  
Julian Kemp  
Vice President Finance and  
Chief Financial Officer

## AUDITORS' REPORT

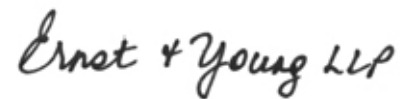
To the Shareholders of  
**Fortune Minerals Limited**

We have audited the consolidated balance sheets of **Fortune Minerals Limited** as at December 31, 2009 and 2008 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

London, Canada,  
February 24, 2010.



Chartered Accountants  
Licensed Public Accountants

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

**CONSOLIDATED BALANCE SHEETS**

As at December 31

	2009	2008
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>[note 10[a]]</i>	18,328,148	8,935,193
Restricted cash <i>[note 12]</i>	2,698,561	—
Accounts receivable	641,637	353,335
Prepaid expenses	62,857	46,215
<b>Total current assets</b>	<b>21,731,203</b>	<b>9,334,743</b>
Other assets <i>[note 6[i]]</i>	213,619	582,907
Security deposit <i>[note 6[i]]</i>	300,000	477,015
Reclamation bonds <i>[note 6[iii]]</i>	617,250	601,867
Capital assets, net <i>[note 5]</i>	104,135	139,182
Mining properties <i>[note 6]</i>	100,762,428	88,150,492
	<b>123,728,635</b>	<b>99,286,206</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,581,550	2,809,354
Interest payable	90,000	—
Income taxes payable	113,659	33,148
<b>Total current liabilities</b>	<b>3,785,209</b>	<b>2,842,502</b>
Long-term debt <i>[note 8]</i>	2,854,772	—
Future income taxes <i>[note 9]</i>	7,805,000	8,310,000
<b>Total liabilities</b>	<b>14,444,981</b>	<b>11,152,502</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital <i>[note 7]</i>	105,207,868	85,339,171
Contributed surplus	6,875,025	4,261,320
Deficit	(2,799,239)	(1,466,787)
<b>Total shareholders' equity</b>	<b>109,283,654</b>	<b>88,133,704</b>
	<b>123,728,635</b>	<b>99,286,206</b>

*See accompanying notes*

On behalf of the Board:

*[Signed]*  
 Robin Goad  
 Director

*[Signed]*  
 Mahendra Naik  
 Director

**Fortune Minerals Limited**

Incorporated under the laws of Ontario

**CONSOLIDATED STATEMENTS OF LOSS  
AND DEFICIT**

Years ended December 31

	<b>2009</b>	2008
	\$	\$
<b>REVENUE</b>		
Interest and other income	<b>50,334</b>	506,921
<b>EXPENSES</b>		
Administrative	<b>851,713</b>	910,816
Investor relations	<b>222,661</b>	335,994
Stock-based compensation <i>[note 7[i]]</i>	<b>216,500</b>	469,500
Interest expense <i>[note 8]</i>	<b>272,832</b>	—
Amortization on capital assets	<b>19,693</b>	21,271
	<b>1,583,399</b>	1,737,581
<b>Loss before other items</b>	<b>(1,533,065)</b>	(1,230,660)
Foreign exchange loss <i>[note 3]</i>	<b>(79,187)</b>	—
Corporate advisory costs <i>[note 6[ii]]</i>	—	(337,667)
Write-off of capital assets	—	(9,466)
<b>Loss before income taxes</b>	<b>(1,612,252)</b>	(1,577,793)
Provision (Recovery) of income taxes <i>[note 9]</i>		
Current provision	<b>88,200</b>	—
Future income tax recovery	<b>(368,000)</b>	(199,000)
<b>Net loss for the year</b>	<b>(1,332,452)</b>	(1,378,793)
Deficit, beginning of year	<b>(1,466,787)</b>	(87,994)
<b>Deficit, end of year</b>	<b>(2,799,239)</b>	(1,466,787)
<b>Basic and diluted loss per share <i>[note 7[b]]</i></b>	<b>(0.02)</b>	(0.03)

*See accompanying notes*

**Fortune Minerals Limited**  
 Incorporated under the laws of Ontario

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(1,332,452)	(1,378,793)
Add (deduct) items not involving cash		
Amortization on capital assets	19,693	21,271
Future income taxes	(368,000)	(199,000)
Stock-based compensation	216,500	469,500
Non-cash portion of interest expense	47,832	—
Loss on disposal of capital asset or equity investee	—	9,466
	(1,416,427)	(1,077,556)
Changes in non-cash working capital balances related to operations		
Accounts receivable	(288,302)	374,908
Prepaid expenses	(16,642)	2,904
Accounts payable and accrued liabilities	772,196	1,516,540
Interest payable	90,000	—
Income taxes payable	80,511	8,815
<b>Cash (used in) provided by operating activities</b>	<b>(778,664)</b>	<b>825,611</b>
<b>INVESTING ACTIVITIES</b>		
Decrease (increase) in other assets, net of non-cash items	568,321	(582,907)
Decrease (increase) in security deposit	177,015	(134,888)
Increase in restricted cash	(2,698,561)	—
Purchase of plant and equipment and capital assets	(5,910,454)	(8,916,704)
Loss on disposal of capital assets in mining properties	23,361	—
Posting of security for reclamation bonds	(15,383)	(16,321)
Increase in exploration and development expenditures	(7,655,489)	(13,425,793)
<b>Cash used in investing activities</b>	<b>(15,511,190)</b>	<b>(23,076,613)</b>
<b>FINANCING ACTIVITY</b>		
Proceeds on issuance of debt, net	2,900,690	—
Proceeds on issuance of shares, net	22,782,119	7,967,326
<b>Cash provided by financing activities</b>	<b>25,682,809</b>	<b>7,967,326</b>
<b>Increase (decrease) in cash and cash equivalents during the year, net</b>	<b>9,392,955</b>	<b>(14,283,676)</b>
Cash and cash equivalents, beginning of year	8,935,193	23,218,869
<b>Cash and cash equivalents, end of year [note 10[a]]</b>	<b>18,328,148</b>	<b>8,935,193</b>

*See accompanying notes*

## **Fortune Minerals Limited**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

## **1. NATURE OF OPERATIONS**

Fortune Minerals Limited [the “Company”] is a natural resource company with mineral deposits and exploration projects in Canada. The Company is focused on the exploration and the assembly and development of natural resource projects. The recoverability of amounts shown for mineral properties and related exploration and development expenditures is dependent upon the economic viability of recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

The Company currently operates in one geographic region, Canada, and in one industry segment, mining.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are within the framework of the significant accounting policies summarized below. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The reported amounts and note disclosure are determined using management’s best estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action. Actual results, however, may differ from the estimates used in the consolidated financial statements.

### **[a] Principles of consolidation**

The consolidated financial statements reflect the financial position and results of operations of the Company and its wholly-owned subsidiaries Fortune Minerals NWT Inc., Fortune Minerals Saskatchewan Inc. [“FMSI”] and Fortune Coal Limited [“FCL”]. All intercompany transactions and balances have been eliminated.

### **[b] Comprehensive income**

Comprehensive income is composed of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale financial assets, translation gains and losses on self-sustaining foreign operations and accounting for certain derivative instruments and hedging activities. The components of comprehensive income, if any, are disclosed in the consolidated statements of comprehensive income (loss). For the years ended December 31, 2009 and 2008, the Company has no other comprehensive income (loss) to report therefore its net income (loss) is equal to the comprehensive income (loss).

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

#### [c] Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and short-term fixed income deposits with original maturity dates shorter than three months.

#### [d] Short-term investments

Short-term investments consist of marketable securities and guaranteed deposits and are recorded at fair market value.

#### [e] Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization of capital assets is recorded using the declining balance method at the following rates:

<b>Asset class</b>	<b>Rate of amortization %</b>
Surface facilities	20
Camp structures	30
Mobile equipment	30
Computer equipment	30
Site furniture and equipment	30
Furniture and fixtures	20 to 30
Leasehold improvements	50
Software	35

#### [f] Mineral properties and exploration and development expenditures

The Company capitalizes acquisition costs and exploration and development expenditures relating to mineral properties until the properties are brought into commercial production, disposed, or the mineral property is no longer economically viable or there is a permanent impairment in value, at which time the carrying value will be written down to its estimated fair value. Payments received for exploration rights on the Company's mineral properties are treated as cost recoveries and reduce the cost of deferred exploration expenditures related to the mineral claims.

#### [g] Income taxes

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **[h] Administrative expenses**

Included in exploration and development expenses and certain capital assets is a partial allocation of administrative and general expenses. The allocation is distributed among each project based on its pro rata share of direct expenditures.

#### **[i] Stock-based compensation plans**

The Company has a fixed stock-based compensation plan approved by the shareholders at the Company's annual meeting held on June 22, 2005. The plan was re-approved including certain amendments at the Company's annual meeting held on May 29, 2007. Under the plan, the Company may grant options to eligible individuals for up to 10% of the issued and outstanding common shares subject to certain conditions. As at December 31, 2009, the Company has 5,564,000 [2008 – 1,602,611] options available for grant in addition to any options issued and outstanding. The exercise price of each option is equal to or higher than the market price of the Company's stock on the date of grant. The plan does not provide for a maximum term. Options are granted and their terms determined at the discretion of the Board of Directors.

The Company recognizes an expense for option awards using the fair value method of accounting. The expense is capitalized to a similar extent as the optionee's salary, wages or fees are capitalized.

#### **[j] Financial instruments**

Financial instruments are designated into one of the following categories: assets held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other liabilities. Depending on the financial instrument designation, fair value or cost-based measures are used for estimating fair value on the balance sheet, and gains and losses are recognized in either net income or other comprehensive income. Held-for-trading and available-for-sale financial assets are measured in the balance sheet at fair value and financial instruments designated as held-to-maturity investments, loans and receivables, or other liabilities are measured at amortized cost. Subsequent measurement and changes in fair value depend on initial classification. The Company has made the following designations:

- Cash and cash equivalents, restricted cash, short-term investments and reclamation bonds are designated as "assets held for trading" and are measured at fair value. Gains and losses resulting from the periodic revaluation of these items are recorded in net income.
- Accounts receivable are designated as "receivables" and are recorded at amortized cost, which upon initial measurement are equal to fair value. Subsequent measurement of receivables is on the basis of amortized cost using the effective interest rate method.
- Long-term debt is designated as "loans" and is recorded at amortized cost, which upon initial measurement is equal to fair value. Subsequent measurement of loans is on the basis of amortized cost using the effective interest rate method.
- Accounts payable, interest payable, taxes payable and accrued liabilities are designated as "other liabilities" and are recorded at amortized cost, which upon initial measurement is

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

equal to fair value. Subsequent measurement of other liabilities is on the basis of amortized cost using the effective interest rate method.

As at December 31, 2009, the Company was not a party to any forward foreign exchange or metal pricing contracts for which hedge accounting may apply, but may use such instruments in the future. The purpose of hedge accounting is to ensure that counterbalancing gains, losses, revenues and expenses (including the effects of counterbalancing changes in cash flows) are recognized in net income in the same period or periods. Hedge accounting is applied only when gains, losses, revenues and expenses on a hedging item would otherwise be recognized in income in a different period than gains, losses, revenues and expenses on the hedged item. Where gains, losses, revenues and expenses on the hedging item and counterbalancing gains, losses, revenues and expenses on the hedged item are recognized in income in the same period, hedge accounting is both considered not necessary and not permitted by the standards.

#### **[k] Income (loss) per common share**

Basic income (loss) per share is calculated by dividing net income (loss) for the year by the weighted average number of common shares outstanding in each respective period. Diluted income (loss) per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the year, if dilutive, and is calculated using the treasury stock method.

#### **[l] Transaction costs**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. For a financial asset or financial liability classified other than as held-for-trading, transaction costs are added to the fair value of the financial asset or liability on the balance sheet. For a financial asset or financial liability classified as held-for-trading, all transaction costs are recognized immediately in net income.

#### **[m] New accounting pronouncements**

##### *International Financial Reporting Standards*

Effective January 1, 2011, the accounting framework under which financial statements are prepared in Canada for all publicly accountable enterprises is scheduled to change to International Financial Reporting Standards ["IFRS"]. The Accounting Standards Board plans to implement changes to Canadian generally accepted accounting principles ["Canadian GAAP"] between now and the implementation date to smooth the transition; however, it is expected that IFRS implementation will significantly impact current financial statement presentation and disclosure. An IFRS convergence strategy is being developed and implemented. During 2010, the Company will need to prepare accounts in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011. The impact of this transition on the Company's consolidated financial statements has not yet been determined.

## Fortune Minerals Limited

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

### *Mining Exploration Costs*

During 2009, a new Canadian GAAP abstract, EIC-174 Mining Exploration Costs, was released. The abstract provides guidance on accounting for capitalization and impairment of mining exploration costs. The Company has applied this new abstract at the date of issuance resulting in no impact on its consolidated financial statements.

### *Amendment to Financial Instruments – Disclosures [“Section 3862”]*

During 2009, the ACSB issued amendments to Canadian Institute of Chartered Accountants [“CICA”] Handbook Section 3862 – Financial Instruments – Disclosure. The amendments introduced a “fair value hierarchy” for disclosures to provide information to financial statement users about the relative reliability of inputs used in fair value measurements. The standard requires that an entity classify each financial instrument into one of three fair value levels:

- Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3 - for inputs that are based on unobservable market data.

Prior year comparative data is not required to be presented for the first year of adoption nor are disclosures of fair value when the carrying amount is a reasonable approximation of fair value. These amendments result in increased disclosures only and have no impact on the financial position of the Company. At December 31, 2009, no investments of the Company required increased disclosure since upon initial adoption they were all considered cash and cash equivalents and no other financial instruments required increased disclosure since the carrying amount was a reasonable approximation of fair value.

## 3. FINANCIAL INSTRUMENTS

The Company has designated cash and cash equivalents, restricted cash, short-term investments, and reclamation bonds as assets held for trading. Accounts receivable are designated as receivables, long-term debt is classified as loans, and accounts payable, interest payable, taxes payable and accrued liabilities are designated as other liabilities. These financial instruments are initially measured at fair value. Receivables, accounts payable, accrued liabilities and long-term debt are subsequently measured on the basis of amortized cost using the effective interest rate method. Assets held for trading are revalued on the reporting date based on relevant market information about the financial instrument. These valuations are estimates and changes in assumptions could significantly affect the estimates.

**[a]** Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents, short-term investments and reclamation bonds are composed of financial instruments issued by large Canadian financial institutions with high investment-grade ratings maturing over various dates. Further, the Company limits its credit risk to any individual counterparty. The Company’s recurring receivables consist primarily of Goods and Services Tax [“GST”] due

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

from the Federal Government of Canada. Non-recurring receivables at December 31, 2009 are from third parties with a good payment history or were received subsequent to year-end.

**[b]** Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices and is comprised of three types of risk: interest rate risk; currency risk; and other price risk.

- i.* Interest rate risk arises because of changes in market interest rates. The Company's cash and cash equivalents, short-term investments and security held for the reclamation bonds are subject to minimal risk of changes in value, have an original maturity of 90 days or less from the date of purchase and are readily convertible into cash. The interest rate on the Company's long-term debt is fixed and is not subject to interest rate risk.
- ii.* Currency risk arises because of changes in foreign exchange rates. Nearly all of the Company's current activities are priced in Canadian dollars ["\$CDN"]. However, the Company expects certain of its future capital and operating costs as well as its future revenue streams will be priced in United States dollars ["\$US"]. The Company has an operating account in \$US to pay United States vendors and to receive \$US payments as well as to manage the timing of conversion of \$CDN to \$US, or vice versa. At December 31, 2009, the \$US balance in cash and cash equivalents was \$2,216,828.
- iii.* Other price risk arises because of changes in market prices other than those due to interest rates and currency changes. The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's ability to raise new capital and generate earnings due to movement in the Company's equity price or general movement in the level of the stock market. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company monitors commodity prices of anthracite coal, cobalt, gold and bismuth in addition to other metal markets, individual equity movements and the stock market to determine appropriate courses of action to be taken by the Company.

**[c]** Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities as they come due. The Company's investment policy is to invest its excess cash in high-grade investment securities with varying terms to maturity, selected with regard to the expected timing of expenditures for continuing operations. Accounts payable and accrued liabilities are all current. The Company's letters of credit are fully secured by deposits that conform to the Company's investment policy. The Company's long-term debt is in good standing and does not require any principal repayments until due in March 2012.

## **Fortune Minerals Limited**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2009 and 2008

#### **4. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are: (i) to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and provide returns for shareholders, and (ii) to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company includes the components of shareholders' equity, long-term debt, cash and cash equivalents and short-term investments, if any, in the management of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments.

To facilitate the management of its capital requirements, the Company prepares forecasts or expenditure budgets for its activities that are used to monitor performance. Variances to plan will result in adjustments to capital deployment subject to various factors and industry conditions. The Company's activities and the associated forecasts or budgets are approved by the Board of Directors.

The Company is not subject to any externally imposed capital requirements limiting or restricting the use of its capital. In order to maximize ongoing development efforts, the Company does not pay out dividends at this time.

The Company's investment policy is to invest its cash in highly liquid, short-term, interest-bearing investments with maturities of less than a year from the original date of acquisition, selected with regards to the expected timing of expenditure from operations.

The Company expects its current capital resources will be sufficient to carry out its exploration and development plans and operations for 2010 and beyond. However, significant additional capital will be required to complete the development of the Company's NICO and Mount Klappan projects.

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

#### 5. CAPITAL ASSETS

Capital assets consist of the following:

	2009		2008	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Computer equipment	118,839	73,246	115,278	53,240
Furniture and fixtures	72,880	33,673	71,092	24,098
Leasehold improvements	9,602	8,726	9,602	7,850
Software	33,906	15,447	33,906	5,508
	<b>235,227</b>	<b>131,092</b>	229,878	90,696
Less accumulated amortization	<b>131,092</b>		90,696	
<b>Net book value</b>	<b>104,135</b>		139,182	

#### 6. MINING PROPERTIES

Interests in mining properties consist of the following:

	2009			
	Capital assets \$	Property costs \$	Exploration and development expenditures \$	Total - mining properties \$
NICO Project [i]	19,237,784	3,593,049	55,344,287	78,175,120
Mount Klappan Project [ii]	3,424	3,144,116	17,140,957	20,288,497
Sue-Dianne Project	—	9,164	2,033,420	2,042,584
Other properties	—	—	256,227	256,227
	<b>19,241,208</b>	<b>6,746,329</b>	<b>74,774,891</b>	<b>100,762,428</b>

	2008			
	Capital assets \$	Property costs \$	Exploration and development expenditures \$	Total - mining properties \$
NICO Project [i]	13,608,076	3,593,049	48,760,637	65,961,762
Mount Klappan Project [ii]	9,674	3,144,116	16,820,801	19,974,591
Sue-Dianne Project	—	9,164	2,028,555	2,037,719
Other properties	—	—	176,420	176,420
	13,617,750	6,746,329	67,786,413	88,150,492

## Fortune Minerals Limited

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 and 2008

During the year ended December 31, 2009, \$610,099 [2008 - \$220,665] of administrative expenses, \$314,489 [2008 - \$433,451] of amortization and \$103,500 [2008 - \$380,500] of stock-based compensation were capitalized to exploration and development expenditures within mining properties. Pre-production mining tax credits with a recorded value of \$1,085,000 were deducted from exploration and development expenditures within mining properties.

Capital assets consist of the following:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Cost</u>	<u>Accumulated amortization</u>
	\$	\$	\$	\$
Surface facilities under construction	17,901,744	—	11,954,312	—
Surface facilities	1,429,741	628,051	1,427,008	450,998
Camp structures	600,124	457,008	600,124	395,672
Mobile equipment	780,157	461,884	798,616	332,569
Site furniture and equipment	31,280	19,882	32,531	15,602
Land acquisition costs	64,987	—	—	—
	<b>20,808,033</b>	<b>1,566,825</b>	14,812,591	1,194,841
Less accumulated amortization	<b>1,566,825</b>		1,194,841	
<b>Net book value</b>	<b>19,241,208</b>		13,617,750	

During the year ended December 31, 2009, \$450,664 [2008 - \$350,025] of administrative expenses, \$94,043 [2008 - \$89,360] of amortization and \$35,500 [2008 - \$167,600] of stock-based compensation were capitalized to surface facilities under construction.

#### *i.* NICO Project, Northwest Territories

The NICO Project and the related claims in the Mazenod Lake Area, Northwest Territories are wholly owned by the Company.

##### *Golden Giant Mine Assets*

On August 31, 2006, the Company acquired, from an equipment dealer [the “Vendor”], certain mill, related surface facilities and processing equipment for future use at the NICO project. Pursuant to the purchase agreement with the Vendor, the Company had an obligation to the Vendor to dismantle and remove the assets from the site of the land owner [the “Land Owner”] by August 31, 2009 and to post financial assurance up to \$1 million as certain assets were sold or removed. In 2008, the Company entered into an agreement with the Land Owner, whereby certain additional assets were acquired and the dismantling and removal of the assets to be used at NICO would not be required until April 2010. Amendments to the purchase agreement with the Vendor were entered into reflecting the revised date. Accordingly, the Company undertook a program designed to dismantle and remove these assets and at December 31, 2008 had posted \$477,015 in financial assurance recorded as a Security deposit.

## Fortune Minerals Limited

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During 2009, the agreements with the Vendor were terminated, \$471,966 posted as financial assurance was returned to the Company, and an amending agreement with the Land Owner was executed. Under the amending agreement with the Land Owner, the Company has posted \$300,000 in financial assurance in relation to the Company's remaining obligations with the Land Owner to dismantle a warehouse and remove the assets salvaged prior to April 2011. The amount posted is recorded as a Security deposit. Upon completion of the Company's obligation, the financial assurance will be released to the Company.

The net cost of purchase, including previously deferred amounts, deconstruction, removal, reconstruction of the assets and ongoing maintenance, security and other related costs, have been accumulated and capitalized as surface facilities under construction until such time as the physical assets are completed and available for use, at which time they will be classified as appropriate. No amortization has been charged against these assets as they are not available for use. The Company has received a third party feasibility study and has commenced detailed engineering and planning related to the use of these assets at NICO but a construction decision has not been taken.

#### *Saskatchewan Metals Processing Plant [“SMPP”]*

During 2009, a decision was made to locate the hydrometallurgical processing plant of the NICO project from the mine site in the Northwest Territories to a site in southern Canada. The Company entered into an agreement to purchase lands near Saskatoon, Saskatchewan on which it proposes to construct the NICO Project refinery and incorporated FMSI, a wholly owned subsidiary. A deposit of \$50,000 was paid with the balance of \$825,000 due upon closing, subject to certain conditions being satisfied or waived by FMSI prior to but no later than December 31, 2012. Costs of purchasing the land are being capitalized as Land acquisition costs until the purchase closes. The net costs of design, development, construction and related costs incurred for the SMPP have been accumulated and capitalized as surface facilities under construction until such time as the physical assets are completed and available for use, at which time they will be classified as appropriate. No amortization has been charged against these assets as they are not available for use.

#### *Project Financing*

The Company has engaged a financial institution to provide advice and financial services in connection with the arrangement of a \$US 200-250 million debt facility to finance the construction, start-up and operation of the Company's NICO Project. Transaction costs of \$213,619 have been recorded in Other assets for the period ended December 31, 2009, including warrants issued in lieu of fees valued at \$199,033 (refer to Note 7[g]) and other incremental costs of \$14,586 incurred to date.

At December 31, 2008, the Company had recorded \$582,907 in Other assets for an advance paid to a major engineering firm for engineering and design work for the proposed NICO mine.

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#### *ii.* Mount Klappan Project, British Columbia

The Mount Klappan Project in northwest British Columbia and related coal licenses are wholly owned by the Company through its subsidiary, FCL. Upon commercial production, the Company has a royalty agreement obligation entitling a third party to \$1 per tonne of coal delivered to the point of usage or sale.

The Company is seeking a joint venture partner to help develop Mount Klappan and engaged a financial advisor to assist with the process of evaluating potential strategic alternatives during 2008. Incremental costs of \$337,667 were incurred in connection with the engagement during 2008 and were recorded as Corporate advisory costs. While the Company continues to seek a joint venture partner, the formal engagement with the financial advisor was terminated during 2009.

#### *iii.* Reclamation Bonds

The Company has provided reclamation bonds in the form of a letter of credit in favour of the Receiver General for Canada and Government of British Columbia for NICO and Mount Klappan projects, respectively. Reclamation bonds consist of the following:

	<u>2009</u>		<u>2008</u>	
	<b>Bond</b>	<b>Security held</b>	<b>Bond</b>	<b>Security held</b>
	<b>amount</b>	<b>(fair market</b>	<b>amount</b>	<b>(fair market</b>
	\$	<b>value)</b>	\$	<b>value)</b>
		\$		\$
NICO Project	<b>211,000</b>	<b>243,777</b>	211,000	240,294
Mount Klappan Project	<b>307,000</b>	<b>373,473</b>	307,000	361,573
<b>Net book value</b>	<b>518,000</b>	<b>617,250</b>	518,000	601,867

The security held for the reclamation bonds consists of cash balances and short-term fixed income deposits with original maturity dates shorter than three months in investment accounts with a large Canadian financial institution.

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#### 7. SHARE CAPITAL

[a] Issued and outstanding common shares:

	2009		2008	
	#	\$	#	\$
<b>Common shares</b>				
<b>Beginning of period</b>	<b>55,550,107</b>	<b>83,353,111</b>	49,546,407	76,630,268
Issued as a result of:				
Public offering [c]	26,538,550	16,188,516	—	—
Private offerings [d and e]	12,690,750	6,331,095	5,450,000	8,082,500
Exercise of options [h]	—	—	553,700	642,292
Share issuance costs, net tax [c,d,f]	—	(1,429,726)	—	(501,949)
Future tax impact of renunciation of development costs expended and reduction in tax basis of mining properties acquired	—	(1,250,000)	—	(1,500,000)
<b>End of period [b]</b>	<b>94,779,407</b>	<b>103,192,996</b>	55,550,107	83,353,111
<b>Warrants</b>				
<b>Beginning of period</b>	<b>5,448,000</b>	<b>1,986,060</b>	5,448,000	1,986,060
Issued as a result of:				
Public offering [c]	13,269,275	1,061,542	—	—
Private offerings [d,e,g]	4,546,000	734,030	—	—
Warrant issuance costs, net tax [c,d,f]	—	(118,263)	—	—
In lieu of fees, net tax [f,g,h]	2,975,000	216,783	—	—
Expiration of warrants [j]	(5,348,000)	(1,865,280)	—	—
<b>End of period</b>	<b>20,890,275</b>	<b>2,014,872</b>	5,448,000	1,986,060
		<b>105,207,868</b>		85,339,171

[b] The Company is authorized to issue an unlimited number of common shares without par value. At December 31, 2009, the weighted average number of common shares outstanding was 64,588,990 [2008 – 51,469,772]. Options to purchase 3,300,000 [2008 – 2,785,000] common shares and warrants to purchase 20,890,275 [2008 – 5,448,000] common shares were not included in the computation of diluted loss per share because the exercise prices of these options and warrants were greater than or equal to the average market price of the common shares during the period.

[c] On December 3, 2009, the Company issued 26,538,550 units at \$0.65 per unit for gross proceeds of \$17,250,058. Each unit consisted of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for \$0.80 on or before December 3, 2011. The price of each unit was based on \$0.61 per unit share and \$0.04 for one-half common share purchase warrant and the gross proceeds were recorded proportionately. The agents were paid a cash commission equal to 6% of the total gross proceeds raised together with compensation options equal to 6% of the total

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number of units sold. Each compensation option entitles the agents to purchase one unit for \$0.65 on or before December 3, 2011. The estimated fair market value of compensation options included in share and warrant issuance costs was \$429,925 (refer to 7[h]) with the offsetting amount recorded as an increase to contributed surplus. Other costs of the public offering included in share and warrant issuance costs were \$303,148.

**[d]** On May 20, 2009 and June 2, 2009, the Company closed tranches of non-brokered private placements that resulted in the issuance of 9,092,000 units at \$0.50 per unit for gross proceeds of \$3,811,970 and 248,750 flow-through shares at \$0.70 per share for gross proceeds of \$174,125. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company for \$0.80 on or before September 2, 2010. The estimated fair market value of the warrants was \$734,030 (refer to 7[h]). Other costs included in share and warrant issuance costs were \$127,279.

On August 14, 2009, the Company issued 3,350,000 common shares on a flow through basis at a price of \$0.70 per share for aggregate gross proceeds of \$2,345,000. Other costs included in share issuance costs were \$19,634.

**[e]** On July 18, 2008, the Company issued 1,100,000 common shares on a flow through basis at a price of \$2.80 per share for aggregate gross proceeds of \$3,080,000.

On October 16, 2008, the Company issued 4,350,000 common shares on a flow through basis at a price of \$1.15 per share for aggregate gross proceeds of \$5,002,500.

**[f]** Included in share and warrant issuance costs, net of tax, is \$415,000 [2008 - \$140,000] to record a future tax asset for deductible share issuance costs and included within in lieu of fees, net of tax, is \$76,000 [2008 - \$nil] to record a future tax liability for loan issue costs.

**[g]** On March 2, 2009, the Company issued 1,875,000 warrants in connection with the loan agreement recorded in Long-term debt (refer to Note 8). The warrants have an exercise price of \$0.80 per share and expire September 2, 2010. The estimated fair market value of the warrants was \$93,750 (refer to 7[h]) and was recorded, net of its income tax effect of \$26,000, as a transaction cost of the loan agreement which is offset against the net proceeds of the loan.

The Company issued 1,100,000 warrants on October 16, 2009 with an exercise price of \$0.72 per share and expiration date of April 16, 2013 in relation to an engagement to arrange debt financing for the NICO Project. The warrants issued in relation to the engagement have vesting dates of 300,000 on October 16, 2009; 266,666 on each of February 1, 2010 and May 3, 2010; and, 266,668 on August 2, 2010. The estimated fair market value of the warrants at December 31, 2009 was \$199,033 and is recorded in Other assets until either the debt facility is arranged or the proposed financing abandoned. The estimated fair market value was based on assumptions in place on the vesting date for warrants that fully vested prior to December 31, 2009 and was based on assumptions in place at December 31, 2009 for warrants that had

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not yet fully vested. The value of warrants not vested by December 31, 2009 was recorded based on the proportion of the number of days between the issue date to period-end compared to the total number of days between the issue date and vesting date.

**[h]** The fair value of warrants granted through private offerings or in lieu of fees during the period and compensation options outstanding at December 31, 2009 were estimated at the date of grant, unless noted otherwise, using the Black-Scholes option pricing model based on the following assumptions:

Number of units granted #	Assumptions				Estimated fair value per unit \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected unit life [years] #	
Warrants:					
800,000 [i]	1.88	—	61	3.3	0.27
300,000	1.90	—	63	3.5	0.34
1,875,000	1.00	—	73	1.5	0.05
4,212,500	0.50	—	73	1.3	0.16
333,500	0.50	—	73	1.3	0.18
Compensation Options:					
1,592,313	1.43	—	67	2	0.27

*[i] Warrants not fully vested are revalued based on updated assumptions at each period-end with a final valuation performed and recorded upon vesting. Changes in estimates based on revaluations are recorded and applied retrospectively on the basis the assumptions were in place on the date of warrant issue and are recognized in the period of the change in valuation.*

The Black-Scholes model, used by the Company to calculate warrant values, as well as other accepted valuation models, was developed to estimate fair value of freely tradable, fully transferable warrants. These models require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the warrants.

**[i]** The estimated fair value of 1,185,000 [2008 – 1,250,000] options granted during the year ended December 31, 2009 has been allocated to stock-based compensation expense, exploration and development expenditures and capital assets in the amounts of \$216,500, \$103,500 and \$35,500, respectively [2008 - \$469,500, \$380,500 and \$167,600, respectively]. Contributed surplus was increased by \$355,500 [2008 - \$1,017,600] representing the fair value compensation recorded less \$37,000 [2008 - \$135,500] related to the tax effect of the amount capitalized. Share capital was increased and contributed surplus decreased by \$227,017 during the year ended December 31, 2008 representing the fair value compensation recorded for options exercised during the year.

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The fair value of options granted during the year ended December 31, 2009 was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Number of options granted #	Assumptions				Estimated fair value per option \$
	Risk free interest rate %	Expected dividend yield %	Expected volatility %	Expected option life [years] #	
1,185,000	0.44	—	58	5	0.30

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, was developed to estimate fair value of freely tradable, fully transferable options, which significantly differ from the Company's stock option awards. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values. Accordingly, management believes that these models do not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

A summary of the status of the Company's stock option plan as at December 31, 2008 and 2009, and changes during the years ending on those dates are presented below:

	2009		2008	
	Number of shares #	Weighted-average exercise price \$	Number of shares #	Weighted-average exercise price \$
<b>Options outstanding, beginning of period</b>	<b>2,785,000</b>	<b>2.45</b>	2,308,700	2.49
Granted	<b>1,185,000</b>	<b>0.60</b>	1,250,000	1.59
Exercised	—	—	553,700	0.75
Expired	<b>670,000</b>	<b>3.28</b>	220,000	2.27
<b>Options outstanding, end of period</b>	<b>3,300,000</b>	<b>1.61</b>	2,785,000	2.45
<b>Options exercisable, end of period</b>	<b>3,300,000</b>	<b>1.61</b>	2,680,000	2.54

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The following summarizes information about the options outstanding at December 31, 2009:

Range of exercise prices \$	Number outstanding #	Number vested and outstanding #	Weighted average exercise price [i] \$	Weighted average remaining contract life [i] [years]
0.50 – 0.99	1,185,000	1,185,000	0.60	4.4
1.00 – 1.49	180,000	180,000	1.30	3.2
1.50 – 1.99	895,000	895,000	1.59	3.4
2.00 – 2.49	665,000	665,000	2.29	2.1
2.50 – 2.99	175,000	175,000	2.89	1.7
3.00 – 3.99	50,000	50,000	3.86	0.7
> 4.00	150,000	150,000	4.95	0.3
	3,300,000	3,300,000		

[i] The weighted average exercise prices and weighted average remaining contract life are the same for both the options outstanding and the options vested and outstanding.

- [j] On July 26, 2009, 5,348,000 warrants expired with a recorded value of \$1,865,280. Contributed surplus was increased to offset the decrease in value of warrants outstanding.
- [k] At December 31, 2009, 900,000 [2008 - 900,000] issued common shares are being held in escrow, subject to certain production thresholds for the NICO property.
- [l] Subsequent to December 31, 2009, the Company has, subject to Board approval, contractual obligations to issue 40,000 stock options pursuant to the Company's stock option plan to new employees. The estimate fair market value cannot be estimated until the options are granted.

#### 8. LONG-TERM DEBT

On March 2, 2009, the Company raised net proceeds excluding transaction costs of \$2,925,000 pursuant to a loan agreement with a private investor. The loan has a face value of \$3,000,000, is unsecured, has a term of three years and bears interest at an annual rate of 9%. Cash interest payments of \$135,000 are due on the last business day of August and February of each year during the term agreement. Transaction costs totalling \$118,060 consist of \$93,750 for warrants issued in lieu of fees (refer to Note 7 [g]) and \$24,310 for listing and legal fees incurred. Transaction costs are recorded as a reduction to net proceeds of the loan on initial recognition and are amortized to interest expense using the effective interest rate method over the life of the loan. As at December 31, 2009, \$47,832 of transaction costs and loan discount were amortized using the effective interest method and included in interest expense of \$272,832.

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#### 9. INCOME TAXES

The Company has non-capital loss carryforwards totalling \$8,100,000 which begin to expire in 2010, un-deducted share issuance costs of \$2,530,000 and unused investment tax credits on preproduction costs of \$1,085,000 which begin to expire in 2028. The Company has completed feasibility studies for both of its principal projects and undertaken related permitting and financing activities. Management has determined it is more likely than not that the Company will achieve production and will realize the benefit of certain non-capital losses and its un-deducted share issuance costs. The benefit of these amounts has been recorded in the consolidated financial statements to the extent that the deduction for share issuance costs and operating losses expire post-2015.

Significant components of the Company's future income tax assets and liabilities are as follows:

	2009	2008
	\$	\$
<b>Future tax assets</b>		
Net operating loss carryforwards	2,117,000	1,483,000
Un-deducted share issuance costs	676,000	528,000
Unused investment tax credits on preproduction costs	1,085,000	—
Ontario corporate minimum tax	—	34,000
	<b>3,878,000</b>	2,045,000
Less valuation allowance related to operating losses, share issuance costs and corporate minimum tax	(530,000)	(530,000)
<b>Future tax assets</b>	<b>3,348,000</b>	1,515,000
<b>Future tax liabilities</b>		
Book value of exploration and development expenditures and capital assets in excess of tax value	(11,153,000)	(9,825,000)
<b>Net future tax liabilities</b>	<b>(7,805,000)</b>	(8,310,000)

The reconciliation of income taxes computed at the statutory income tax rates to the recovery for income taxes is as follows:

	2009	2008
	\$	\$
<b>Combined federal and provincial income tax rate</b>	<b>32.79%</b>	33.29%
Corporate income tax at statutory rate	(528,700)	(525,200)
Increase (decrease) in income taxes resulting from:		
Non-deductible stock compensation and other expenses	111,000	180,000
Unclaimed corporate transaction costs	—	28,000
Rate difference	97,000	63,000
Other	40,900	55,200
	<b>(279,800)</b>	(199,000)

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#### 10. CONSOLIDATED STATEMENT OF CASH FLOWS

<b>[a]</b> Cash and cash equivalents consist of the following:	<b>2009</b>	<b>2008</b>
	\$	\$
Cash on hand and balances with banks	<b>17,566,979</b>	3,801,482
Short-term fixed income deposits	<b>761,169</b>	5,133,711
	<b>18,328,148</b>	8,935,193

<b>[b]</b> Supplemental cash flow information:	<b>2009</b>	<b>2008</b>
	\$	\$
Interest and investment income received	<b>72,380</b>	520,678
Interest paid	<b>135,000</b>	—

#### 11. RELATED PARTY TRANSACTIONS

For the year ending December 31, 2009, the Company paid certain officers or directors an aggregate of \$746,634 [2008 - \$790,136] for third party consulting services on behalf of the Company. These transactions have been recorded at their exchange amount.

#### 12. CONTINGENCIES

The Company is from time to time involved in claims and litigation arising in the normal course of business. Claims are made by third parties against the Company and by the Company against third parties with respect to costs incurred and/or amounts charged under applicable contract provisions. Although management makes an estimate and provides for the final resolution of these claims in the financial statements, it is possible that the final resolution of these matters may require the Company to make expenditures in excess of estimates. Management believes that none of these claims will have a material impact on the Company's financial position. At December 31, 2009, the Company has posted \$2,698,561 in a trust account in relation to a disputed claim. This amount is recorded as restricted cash pending resolution of the dispute.